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JANUARY 6, 1986

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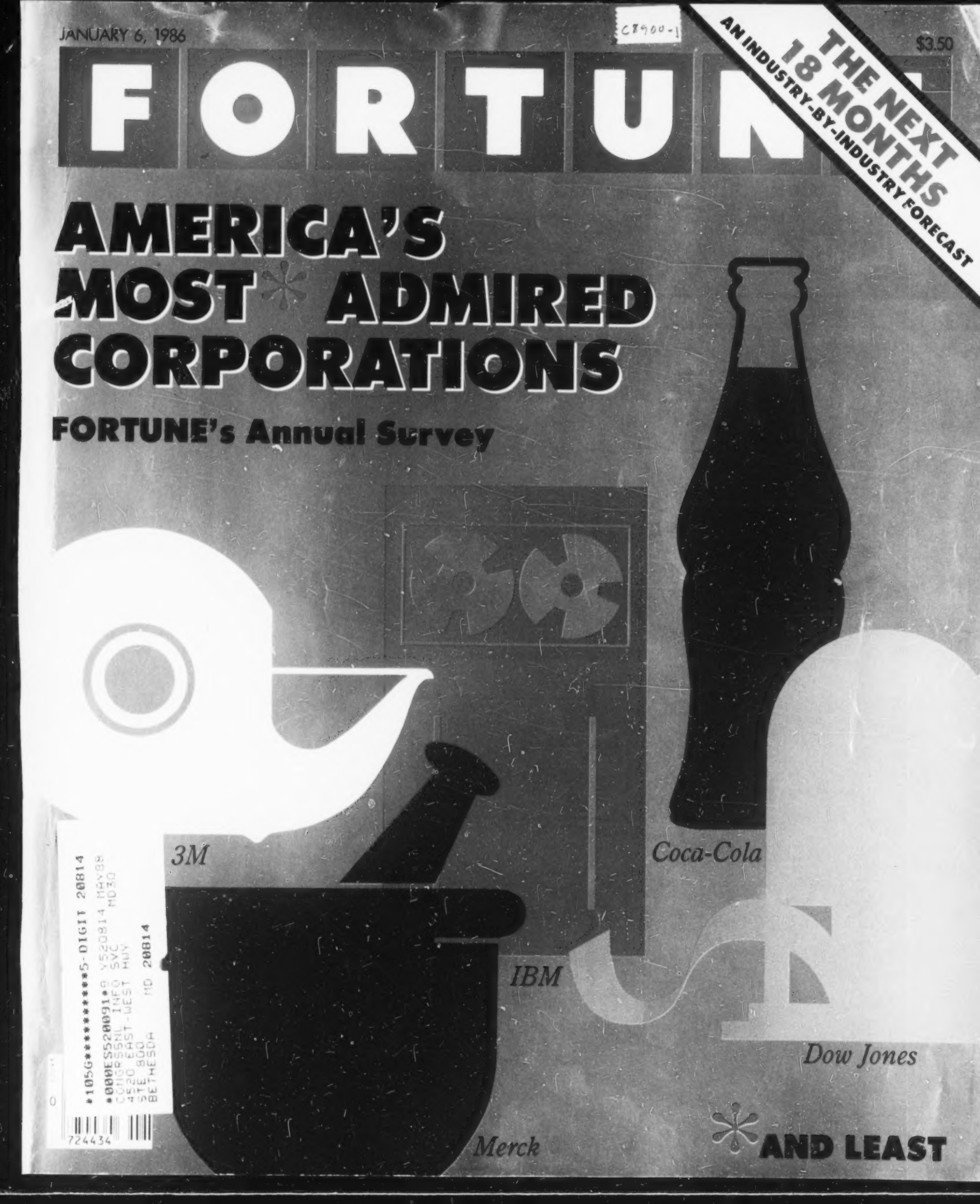
FORTUNE

THE NEXT 18 MONTHS
AN INDUSTRY-BY-INDUSTRY FORECAST

AMERICA'S MOST ADMIRED CORPORATIONS

FORTUNE's Annual Survey



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The Colossus of Conglomerates Moves Away From Smokestacks by Buying RCA

■ **General Electric**'s proposed acquisition of **RCA** for $6.28 billion—the largest non-oil merger ever—unites two companies that have rebounded strongly after several disappointing years. Thornton Bradshaw, 68, became chairman of RCA in 1981, a year in which the corporation lost $27.2 million. NBC, its broadcasting network, was dead last in the television ratings. Today NBC is the top-rated network. RCA's 1984 profit was $341 million, and with the GE offer of $66.50 a share, RCA's stock price has tripled during Bradshaw's tenure. For GE's Jack Welch, 50, the merger is a milestone in a long campaign to revamp his company.

The reunion of GE and RCA—GE was among a consortium of companies that started RCA in 1919 and pulled out in 1933 after a federal court ruling—creates a $38-billion-a-year giant that would rank seventh on the FORTUNE 500, just behind IBM. Both are defense contractors; both have interests in communications and electronics. But there is surprisingly little head-to-head competition between the two. "They fit beautifully," says Mark Hassenberg, an analyst with the Wall Street firm of Donaldson Lufkin & Jenrette. "It's amazing that there is so little overlap. They complement each other, rather than oppose. In defense, for example, GE makes radar and jet engines, while RCA focuses on communications and electronics." GE may have picked up a bargain. Wall Street estimates of RCA's real worth range anywhere from $70 to $90 a share.

Clinching the deal: from left, Bradshaw, Welch, and Frederick

The acquisition is the broadest but certainly not the last brushstroke on the corporate redesign that Welch began when he became chief executive in 1981. Under his stewardship GE's revenues have grown slowly, but earnings have increased nearly 11% a year, and return on equity has held steady at about 18%, well above the industry average. A tough-minded, sometimes controversial manager, Welch has trimmed staff, eliminated layers of management, shut down unproductive factories, and spent $2.5 billion to automate the plants that remained.

Above all Welch has moved the company away from smokestack manufacturing and into services and high-technology industries. Since 1981, Welch has sold 150 of GE's operations for a total of $5 billion. The biggest chunk: Utah International, a mining business he peddled to Broken Hill Proprietary of Australia for $2.4 billion.

Welch will probably run RCA much as he has GE—cutting costs, streamlining management, moving out of low-growth businesses. Coincidentally, he will have a reunion with Robert Frederick. He beat out Frederick for the top job at GE, and his old colleague left to become president of RCA and Bradshaw's possible heir apparent. Welch is unlikely to tinker with NBC's news and entertainment divisions, though he will want to know why the industry's highest ratings translate into its lowest profits.

Despite its size, the deal faces few hurdles in Washington. The Federal Communications Commission is unlikely to balk at transferring NBC's television licenses, and will probably even allow GE to retain its television station in Denver; it's the NBC affiliate in the area. Nor should there be any antitrust problems. Either the Justice Department or the Federal Trade Commission must approve the merger, but the Reagan Administration judges prospective mergers less on size than on the merged company's ability to compete, particularly in international markets. On that point, Welch has been careful to emphasize that the new, expanded GE would be better able to knock heads with the likes of Japan's Matsushita and West Germany's Siemens. Said he: "The strength we gain from

Growing Through Mega-Mergers

These are the five largest U.S. corporate combinations in which the smaller partner had at least $8 billion in annual sales. The combined revenue figures are for the latest four quarters.

TRANSACTION	PRICE in billions	COMBINED REVENUES in billions
Texaco acquires Getty (1984)	$10.1	$46.6
Chevron acquires Gulf (1984)	$13.2	$38.8
GE acquires RCA (pending)	$6.3	$37.5
Du Pont acquires Conoco (1981)	$7.2	$34.2
Philip Morris acquires General Foods (1985)	$5.6	$19.2

a relatively invulnerable position in broadcasting and some other areas will enable us to be a stronger global competitor."

Trashing junk bonds

■ Even if a proposed new rule by the Federal Reserve were already in effect, the Fed wouldn't be able to lay a glove on General Electric's purchase of RCA for $6.28 billion in cash. But after New Year's Day, deals might fall through if financed like many corporate takeovers in recent years—by low-rated junk bonds, issued by shell corporations and backed by the target company's stock. In a close vote the Fed proposed that in such transactions the target company's stock secure no more than 50% of the purchase price.

The proposal is a new interpretation of the old restrictions on buying stocks on margin. In force since 1934, the margin limitation was designed to curb speculative binges on the stock market. In its new guise it is widely interpreted as an attempt to control the vast amount of debt accumulated during the current merger mania—debt that Fed Chairman Paul A. Volcker finds incompatible with long-term economic and financial stability. **Drexel Burnham Lambert**, the New York-based brokerage that dominates the huge junk-bond market ($15 billion so far this year), took issue with the ruling. Said Frederick H. Joseph, Drexel's C.E.O.: "There is no evidence that these financings [junk bonds] are harmful to the financial system."

The new limitations could take the leverage out of some leveraged takeovers and give worried C.E.O.s a little peace of mind. Corporate raiders like T. Boone Pickens and Carl Icahn may find it more difficult to finance their campaigns. David-size companies will be less likely to swallow up industrial Goliaths. But the ruling limits the way in which takeovers are financed, not takeovers themselves. Acquiring companies may have to put their own credit on the line to raise cash, or they may become more creative. "There are a lot of bright, imaginative people in this business," says Roger Miller, managing director of Salomon Brothers' mergers and acquisitions department. "They will immediately go into a reactive mode and find other ways of doing things."

EDITOR *John Nielsen*
REPORTER *H. John Steinbreder*

Hungry Britons

■ Merger mania has swept through Britain too, and never has the pace been as frenetic as during the first few days of December. In a rush:

The **Argyll Group** (retailing) offered $2.8 billion for **Distillers Co.**, the world's largest producer of Scotch whisky (Johnnie Walker, Dewar's); **Imperial Group** (tobacco, brewing) announced it would merge with **United Biscuits** (Keebler cookies) in a deal valued at $1.94 billion; **Habitat-Mothercare** (retailing) bought out **British Home Stores** (also retailing) for $2.2 billion; British **General Electric Co.** (electronics) bid $1.8 billion for **Plessey Co.** (telecommunications, defense); Australia's **Elders IXL** (wool processing) made a $2.7-billion offer for **Allied-Lyons** (brewing, food); **Hanson Trust** (a conglomerate) made a hostile bid of $2.8 billion for Imperial Group (yes, the same Imperial Group that had just announced an amicable marriage with United Biscuits).

Before 1985 Britain had never seen a merger offer above $1.5 billion, and hostile takeovers were as rare as cold beer. Suddenly six of the biggest deals in history were announced within days of each other. Moreover, four were openly hostile. Of the remaining two only Habitat/British Home Stores was entirely voluntary. The Imperial/United Biscuit merger was a shotgun affair prompted by fears—well founded, as it turned out—of bids from unfriendly quarters.

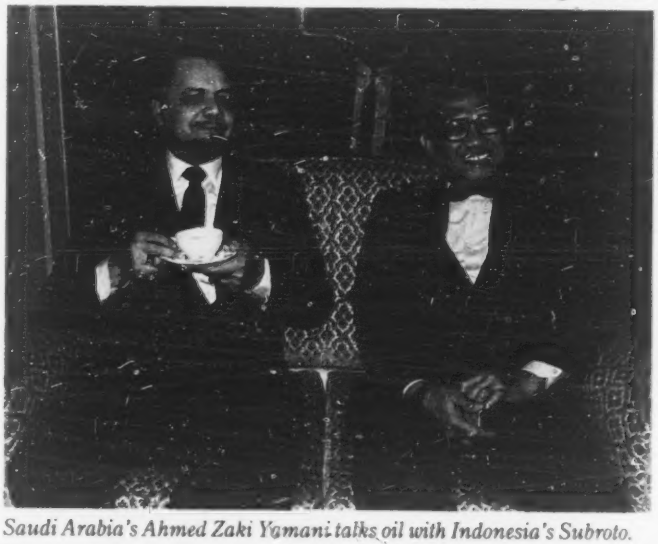
Security analysts attribute the surge to an abundance of credit and a new activism among Britain's shareholders. "Paper values of companies have increased with the bull market of the past five years," says Nicholas Jones, a corporate finance director with the merchant bank J. Henry Schroeder Wagg in London. "And so has the concern of investors over management. The institutional investor is more prepared to back a good manager, even if his firm has smaller capitalization, if he makes a bid for a larger, more complacent company." As Jones sees it, hostile takeovers will continue in Britain—though not at the dizzy pace of early December.

Texaco loses again

■ A Texas state judge upheld a jury verdict requiring **Texaco** to pay $10.53 billion plus interest to **Pennzoil** for disrupting Pennzoil's agreement in principle to acquire 43% of **Getty Oil**. For now at least, Texaco does not have to post a $12-billion bond, a provision of Texas law that could have thrown the company into receivership. Still, news of the judge's ruling sent Texaco stock tumbling again. (See Personal Investing.)

OPEC circles wagons

■ Riddled by dissension and staggered by a long-term slide in oil prices, OPEC has apparently found unity by standing its traditional policy on its head. Meeting in Geneva, oil ministers in the 13-nation cartel decided they would no longer defend oil prices by curtailing production. Instead they decided to protect OPEC's market share—down from half the world market a decade ago to under one-third today—thereby risking a price war with non-OPEC producers



ALAN MORGAN—GAMMA LIAISON

Saudi Arabia's Ahmed Zaki Yamani talks oil with Indonesia's Subroto.

AMERICA'S MOST ADMIRED CORPORATIONS

IBM remains the most admired big company. Coca-Cola slips less than you might expect. Some big new names, including BankAmerica, join the list of least admired corporations. International Harvester and Eastern Air Lines finally get some respect. ■ *by Cynthia Hutton*

COMPANIES come and go in the ranks of the most admired U.S. corporations, but IBM marches steadily onward in the vanguard. It is No. 1 for the fourth year in FORTUNE's annual survey of corporate reputations. Bringing up the rear as the least admired of 292 companies ranked is Financial Corp. of America, a diversified financial company.

The survey covers the largest companies in 31 industry groups, six more groups than were surveyed last year. Just behind IBM, five companies make repeat appearances among the most admired. Coca-Cola kept a place among the top ten, despite the drubbing its reputation for astuteness took after it first reformulated Coke to give it a new taste and then was forced to bring back the old formula, now dubbed Coca-Cola Classic. Other repeaters: Minnesota Mining & Manufacturing, which replaced Coca-Cola as the second-most-admired company, Dow Jones, Merck, and Boeing. The rest of the top ten this year are new. They include Rubbermaid, the smallest company ever to rank that high (1984 sales: $566 million); Exxon, the world's largest industrial company (1984 sales: $91 billion); J.P. Morgan, the parent of Morgan Guaranty Trust Co. of New York; and Procter & Gamble.

P&G is new to the survey as well as to the top ten; its category, soaps and cosmetics, is one of the industry groups added this year. The four companies that appeared among the most admired last year but failed to keep their places this year did not drop far. They are Hewlett-Packard (No. 13), Anheuser-Busch (No. 11), General Electric (No. 17), and Eastman Kodak (tied with R.J. Reynolds Industries as No. 18).

Among the least admired companies, the repeaters in addition to Financial Corp. of America are Pan Am, American Motors, Manville, and Crown Zellerbach, back after a two-year absence. This is the fourth year in a row for American Motors and Pan Am, the third for Manville, and the second for Financial Corp. Joining these companies at the bottom of the list are Amax, BankAmerica, Bethlehem Steel, Control Data, and LTV.

Of the six companies that were on the least admired list last year but are not this year, two made it out by increasing their scores. Eastern Air Lines, helped by improved earnings in the first six months, took a short hop and landed 12th from the bottom at No. 281. International Harvester, No. 277, drove up ten places and is now 16th from the bottom, after selling its troubled farm-equipment division to Tenneco and concentrating on trucks and diesel engines. Three of last year's least admired companies—Continental Illinois, which was at the bottom of the list, Asarco, and TWA—disappeared from the survey because they are no longer among the largest companies in their industries. Pabst Brewing was taken private.

Once again this year, profits provide the surest path to respect. The top ten's median return on shareholders' equity for 1984 was 20%, compared with 13.5% for the FORTUNE 500. At the opposite end of the list, five of the least admired lost money in 1984, and the median return on equity for the remaining five was only 6.8%. None of the top ten has had an annual loss in over 35 years.

Over the past ten years the least admired group's median total return to investors—dividends plus the stock's price appreciation—was 4.6%, well below the 18.7% median for the FORTUNE 500. Even the top ten's ten-year median total return to investors, 14.9%, failed to come up to the 500's median. But the story is different when 1984 alone is considered. Last year the top group's median total return to investors was 11.5%, well above the FORTUNE 500's median of minus 0.75%. The bottom group's median return was dismal: minus 39.8%.

In the past FORTUNE's survey covered only industries with at least ten companies ranked in the FORTUNE 500 and FORTUNE Service 500 directories of U.S. industrial and non-industrial corporations. This year, for the first time, every industry group comprising four or more companies is surveyed. The new industries, in addition to soaps and cosmetics: mining and crude-oil production; toys, sporting goods, and musical instruments; shipbuilding, railroad and transportation equipment; textiles and vinyl flooring; and tobacco. FORTUNE bases its industry groups on categories established by the U.S. Office of Management and Budget. Only three OMB categories are not included in the survey of corporate reputations. The missing categories cover too few companies: leather (no companies in a FORTUNE directory); jewelry, silverware (one company); and furniture (two companies).

To rank corporate reputations, FORTUNE polled 8,000 executives, outside directors, and financial analysts. The response was

AT THE TOP AND BOTTOM OF THE 292 COMPANIES

The most admired

IBM remains the most admired large U.S. corporation, though its score for eight attributes is down from last year's 8.44. Coca-Cola's score, 8.34 last year, dropped sharply.

RANK	COMPANY	INDUSTRY GROUP	SCORE
1	IBM	Office equipment, computers	8.31
2	3M	Precision instruments	8.12
3	Dow Jones	Publishing, printing	8.07
4	Coca-Cola	Beverages	7.98
5	Merck	Pharmaceuticals	7.91
6	Boeing	Aerospace	7.90
7	Rubbermaid	Rubber, plastic products	7.80
8	Procter & Gamble	Soaps, cosmetics	7.79
9	Exxon	Petroleum refining	7.72
10	J.P. Morgan	Commercial banking	7.71

The least admired

Financial Corp. of America is the least admired of 292 companies. New to the least admired list are LTV, Control Data, Amax, BankAmerica, and Bethlehem Steel.

RANK	COMPANY	INDUSTRY GROUP	SCORE
292	Financial Corp. of America	Diversified financial	3.23
291	LTV	Metal manufacturing	3.66
290	Pan Am	Transportation	3.71
289	American Motors	Motor vehicles and parts	3.75
288	Manville	Glass, building materials	3.79
287	Control Data	Office equipment, computers	3.89
286	Amax	Mining, crude-oil production	3.90
285	BankAmerica	Commercial banking	4.09
284	Crown Zellerbach	Forest products	4.23
283	Bethlehem Steel	Metal manufacturing	4.25

good: about 50%. Those surveyed were asked to rate the ten largest companies in their own industry (or, for analysts, the industry they follow) on eight key attributes of reputation: quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop, and keep talented people; community and environmental responsibility; and use of corporate assets. Ratings are on a scale of 0 (poor) to 10 (excellent).

The rankings on the following pages show how each company is regarded by those most familiar with the industry to which it is assigned. Companies are assigned to industry groups according to the business that contributed most to 1984 sales (or assets, for certain industries). Some companies feel that they have been put in the wrong categories. Becton Dickinson, which manufactures surgical, laboratory, and diagnostic products, believes it should have been rated among pharmaceutical companies, instead of as a precision-instruments company. While the survey was being made, Gulf & Western sold the businesses that had put it in the apparel group; its remaining operations would probably make G&W part of the diversified services group, which it has regarded as its natural home right along.

The ten companies that had the largest point changes in their rankings from last year, all declines, include four that fell to the least admired list, BankAmerica, Control Data, Crown Zellerbach, and LTV. Union Carbide and Wang Laboratories also had big point losses. Before the Bhopal disaster, when a gas leak at a Union Carbide plant in India killed more than 2,000 people, the company ranked in the top half of its industry group for community and environmental responsibility. In that respect it is now near the bottom among the 292 companies; only Financial Corp. of America and Manville rank lower. Wang's sin was to overestimate demand for word processors and computers; earnings fell sharply, and so did the stock price, from $29.25 a share in January to under $20 a share in November. Of the other point losers, three—Phillips Petroleum, Beatrice, and Crown Zellerbach—were involved in messy takeover battles. J.C. Penney is spending heavily on remodeling stores to attract higher-income customers.

In remaining the most admired company, IBM scored slightly lower than last year—8.31 vs. 8.44—but beat all comers on five of the attributes of reputation, one more than last year. IBM received the highest score awarded a company on any attribute, 9.4, for financial soundness. Though forced to kill the PCjr, a home computer that it had expected to be a huge success, IBM scores 9.19 for quality of management, the second-highest score awarded for any attribute. IBM also ranks first for long-term investment value, use of corporate assets, and ability to attract, develop, and keep talented people. IBM's biggest decline in score was for innovativeness; it dropped from No. 31 last year to No. 78 this year.

3M ranks among the three most admired companies for wise use of corporate assets, community and environmental responsibility, and innovativeness. Innovation is crucial for 3M, which aims to continue generating at least 25% of sales each year from products introduced in the previous five years. To meet that goal, says Chairman Lewis W. Lehr, "there has to be a culture, an environment, for innovativeness." He adds that management must be tolerant of errors. Says Lehr: "We try to say around here, 'If you aren't making errors, you probably aren't doing anything.' "

Dow Jones, No. 3 for the second time, scores highest of the 292 companies for quality of products and services, and third for both long-term investment value and financial soundness. Dow Jones, publisher of the *Wall Street Journal*, had the highest 1984 return on equity of the most admired group, 25.5%.

In its 100th year, Coca-Cola drops to No. 10 overall for quality of products; last year it was No. 3 for this attribute, behind only Dow Jones and Boeing. For quality of management, Coca-Cola fell from No. 4 to No. 41. Ranked behind Anheuser-Busch in the beverage group for management last year, it now ranks behind PepsiCo as well. Coca-Cola's highest ranking was for value as a long-term investment. Here it placed No. 2 behind IBM. "It's obvious that they did the wrong thing" in trying to change Coke, says Emanuel Goldman, a security analyst with Montgomery Securities, a San Francisco brokerage firm. "The thing they did right was to make the change back very quickly." Helped by old Coke and wider distribution of the new Cherry Coke, Coca-Cola's soft-drink volume in the U.S. increased eight percentage points in the third quarter of 1985.

Merck, No. 10 last year, is No. 5 this year among the most admired. In its industry group Merck ranked No. 2 for quality of management, behind Johnson & Johnson, and No. 1 for wise use of corporate assets. At midyear P. Roy Vagelos, a physician and biochemist who directed Merck's research from 1976 to 1984, was appointed C.E.O. Vagelos is the first scientist to head Merck. Ronald J. Stern of the First Boston investment banking firm calls him "a big asset, a recognized top researcher who is adjusting very well to the financial mentality."

Boeing, No. 7 last year among the most admired, ranks sixth this year, scoring second overall for product quality, despite the company's admission that it had improperly repaired a critical bulkhead on a Japan Air Lines 747 that crashed in August, killing 520 people. For management quality Boeing ranks third. It gained sharply for soundness of financial position, moving to No. 13 from No. 27 last year. Industry analysts expect business to boom for Boeing as airlines order planes again. For 1985, Boeing expected to deliver 201 new planes, an increase from a seven-year low of 146 in 1984. The company's shareholders have enjoyed an average annual return on investment of 36.9% over the past ten years, by far the highest for any of the most admired group.

RUBBERMAID ranks seventh overall, up from No. 12 last year. The company ranked in the top ten for three attributes: wise use of corporate assets, innovativeness, and quality of products and services. Says Jay H. Freedman, a security analyst at Kidder Peabody, a New York brokerage firm: "Rubbermaid is a well-managed company with the strongest brand name going." Freedman adds, "They're also exceptionally good at telling the world how good they are." Rubbermaid Chairman Stanley C. Gault likes to point out that Rubbermaid has introduced more than 500 new products in the past five years. His company's stock price has increased sixfold in the same period (from $5 a share in 1980 to a recent $32.50 a share).

Procter & Gamble is eighth among the most admired companies and takes first place in the soaps and cosmetics group on all eight attributes surveyed. It ranks among the top ten for three attributes: soundness of financial position; ability to attract, develop, and keep talented people; and community and environmental responsibility. (See box for Chief Executive John G. Smale's comments on these and other matters.) Shortly before FORTUNE's survey was taken, P&G reported that net profit fell 29% in the fiscal year that ended June 30. The company explains that it has introduced eight major products, an expensive process, in the past two years, and has spent heavily on them.

continued

EIGHT KEY ATTRIBUTES OF REPUTATION

Innovativeness

MOST ADMIRED	SCORE
Citicorp	8.66
Gannett	8.64
3M	8.33

LEAST ADMIRED	SCORE
Amax	3.76
Bethlehem Steel	3.82
BankAmerica	4.01

Ability to attract, develop, and keep talented people

MOST ADMIRED	SCORE
IBM	8.51
J.P. Morgan	8.21
Merck	8.14

LEAST ADMIRED	SCORE
Beatrice Cos.	2.79
American Motors	3.09
Financial Corp. of America	3.10

Quality of management

MOST ADMIRED	SCORE
IBM	9.19
J.P. Morgan	8.73
Boeing	8.46

LEAST ADMIRED	SCORE
BankAmerica	3.40
Control Data	3.41
Financial Corp. of America	3.57

Long-term investment value

MOST ADMIRED	SCORE
IBM	8.74
Coca-Cola	8.04
Dow Jones	7.90

LEAST ADMIRED	SCORE
American Motors	2.50
Financial Corp. of America	2.54
Control Data	2.62

Community and environmental responsibility

MOST ADMIRED	SCORE
Eastman Kodak	8.43
3M	7.92
Coca-Cola and Johnson & Johnson (tie)	7.88

LEAST ADMIRED	SCORE
Financial Corp. of America	3.40
Manville	3.61
Union Carbide	3.80

Quality of products or services

MOST ADMIRED	SCORE
Dow Jones	8.98
Boeing	8.65
Eastman Kodak	8.52

LEAST ADMIRED	SCORE
Financial Corp. of America	4.24
Pan Am	4.51
American Motors	4.82

Financial soundness

MOST ADMIRED	SCORE
IBM	9.40
Exxon	9.02
Dow Jones	8.90

LEAST ADMIRED	SCORE
Manville	1.90
Financial Corp. of America	2.03
LTV	2.14

Use of corporate assets

MOST ADMIRED	SCORE
IBM	8.27
3M	7.94
Amoco	7.78

LEAST ADMIRED	SCORE
Financial Corp. of America	2.59
Control Data	2.97
Amax	3.09

TWO C.E.O.S TALK ABOUT CORPORATE REPUTATIONS

■ *To interpret the results of the survey of corporate reputations, reporter Cynthia Hutton interviewed scores of financial analysts, directors, and company officials, including chief executives. Excerpts follow from interviews with the C.E.O.s of two industrial giants that have joined the survey's top tier of most admired companies for the first time. John G. Smale, 58, joined Procter & Gamble as an assistant brand manager in 1952. He became president in 1974 and chief executive in 1981. Clifton C. Garvin Jr., 64, chairman of Exxon since 1975, went to work for the company 38 years ago as a process engineer at a refinery in Louisiana.*

John G. Smale, Procter & Gamble

On how to find, get, and keep good people: The characteristics that we look for would perhaps be self-evident: intelligence, creativity, entrepreneurship, a desire to work in what's essentially a consumer products company. We think one of the reasons that we're attractive to people is our promotion-from-within policy. We don't go outside to hire people. We also put people to work right away. There's obviously a lot of on-the-job training and supervision and a kind of mothering.

On P&G's key strengths: I'd say people and then products. Any strong organization, whether it be a business or a university, has to have strong people. And that doesn't just happen.

On P&G's future: What we're doing now is what we've done in the past. We've entered a number of new product categories in the past three to five years and we're in still more because of recent acquisitions. In the late Fifties and early Sixties we were expanding into many new categories: paper and cake mix, peanut butter and coffee. There came a time when we consolidated our position in those categories and tried to achieve leadership. It took 25 years in peanut butter, but we got there. It took 12, 13 years in the tissue business. In fabric softeners we did it in a couple of years. Now we're doing the same thing. We're entering new categories of business that we think are relevant to our technology, and we'll be successful at it.

On Richardson-Vicks: [The acquisition] telescopes the time in which we will be able to achieve leadership in a lot of new categories. Richardson-Vicks is a leader in the cough and cold category. Oil of Olay is the leading facial moisturizer.

On the need to do right: I think another part of our advantage is an intangible thing, the principles that the company operates by, the fact that we try to do the right thing. It's important to our kind of people that they're comfortable with the character of the organization they're working with. So when we do something like withdraw Rely [a tampon linked by some medical studies to toxic shock syndrome] our people say they're concerned that it has a financial effect on the company, but they also say, "That fits with what I would expect this company to do."

Clifton C. Garvin Jr., Exxon

On Exxon's strengths: Exxon hasn't existed 104 years without having developed a lot of strengths. No. 1 is the people who are in this company. We have more than our fair share of good people. And particularly over the past five years, those people have done well. We also have the financial strength to weather difficult times. In the unsettled recent past of the oil industry, we have been able to adjust to the ups and downs of OPEC and crude-oil pricing.

On keeping good people: We recruit on college campuses for disciplines we need, and we've been able to encourage the concept of career employment. We have a sophisticated system of identifying good young people. Then we have a system of executive development that gives you a chance to perform in different parts of the business. I'm a prime example. I came out of the Virginia Polytechnic Institute and joined Exxon, and I'm going to retire with the company.

On a stock repurchase program Exxon started in 1983: It's been a deliberate program to enhance the value of our shares for stockholders. We make no commitment to continue the repurchase program. Each month we look at cash flow to be sure that there is capital for programs central to the company's future, that there are adequate dividend returns to the shareholders, and we decide whether to repurchase shares.

On Exxon's greatest challenges: One big challenge is to adapt to a market environment that suggests very little growth for petroleum products. The backdrop to that environment is that all the marginal crude-oil production is in the hands of the OPEC crew. So they, being the marginal supplier of oil, have the most to say about what the price of oil will be, and that has been a very unstable kind of situation in recent months. The investments that we have to make to discover oil take a long time to put in, and the returns are going to come years from now. Drafting a wise investment strategy is a real challenge. The non-OPEC world can still use all the new reserves of crude oil that can be found, and so there's a tremendous need to be successful in exploration efforts, particularly in those geographical basins that are not in OPEC's part of the world. We've got to be sure that we're part of that discovery of non-OPEC oil.

The survey was half completed before P&G pleased Wall Street by announcing plans to acquire Richardson-Vicks, and finished before P&G revealed that it is buying G.D. Searle's over-the-counter drug lines.

Exxon, No. 27 last year, jumps to No. 9 in this year's survey. It ranks second among the 292 companies for financial soundness and is first among its petroleum-refining peers for all but three of the eight attributes of reputation. In two of the three categories in which it fell short of perfection (management quality and wise use of assets) it is No. 2; in innovativeness it is No. 3. Exxon has been trimming operations across the board, which helped it to lead all big oil companies for return on equity in 1984 (19.2%). (For Chairman Clifton C. Garvin Jr.'s views on his company, see box.)

J.P. Morgan, the fifth-largest U.S. commercial bank holding company and the only one still rated triple-A by Standard & Poor's, ranks tenth among the most admired companies, up from No. 17 last year. It places No. 2 among the 292 companies for both quality of management and ability to attract, develop, and keep talented people, behind only IBM in both respects. For wise use of corporate assets it is No. 5; for value as a long-term investment, No. 6. J.P. Morgan's president, Robert V. Lindsay, says of Morgan's high overall ranking: "I'm particularly glad to see that reputation can be maintained and improved at a time when the banking industry and we ourselves are in a transition from what you might call the old days to the new days." Of his company's strategy, he says: "Opportunistic is a word that could be used. We're trying to spot the opportunities and run with them—conservatively, carefully."

At the bottom of the list, Financial Corp. of America, parent of American Savings & Loan Association, is ranked among the bottom three for every attribute but innovativeness, for which it placed 283rd out of the 292 companies. FCA lost $590.5 million in 1984, the most ever lost by a thrift. The company's new management, though still tarred with the old brush, reported a profit of $12.3 million in the June-September quarter. American S&L's portfolio is still 90% based on long-term fixed-rate loans, while 84% of the interest it pays is on short-term deposits and borrowings. American S&L is drawing no revenue on $1.8 billion in foreclosed property and other delinquent loans.

Two metal manufacturers—LTV, No. 291, and Bethlehem Steel, No. 283—are among the least admired. The industry received the survey's lowest median score for the eight attributes of reputation, 5.22. Since LTV acquired Republic Steel Corp. in 1984, stacking up enormous debt, LTV has not lost less than $19.5 million a quarter. LTV scored last in the metal manufacturing group for every attribute but innovativeness, where it placed ninth. Its lowest overall rating was 290 of 292 for soundness of financial position; only Manville and Financial Corp. of America were rated lower. Bethlehem, which has stuck with steel while other companies diversified, scored lowest for innovativeness, No. 291. Security analysts say LTV and Bethlehem's new managers are struggling with the aftermath of ancient misjudgments that led steel companies to maximize capacity and invest in marginal, high-cost plants.

Pan Am, No. 290, reported an operating loss in 1984 and ranks among the least admired companies for the fourth year. It ranks 291st for quality of services offered and tenth in the transportation group for every attribute. The company has lost $771 million since 1980 and faces another loss this year. The biggest surprise of the year was Pan Am's agreement to sell its Pacific routes to United for $750 million.

Also ranked in the bottom ten for the fourth year is American Motors, No. 289. Ranked last overall for value as a long-term investment, AMC also scored in the bottom three for quality of products and ability to attract, develop, and keep talented people. After a small profit in 1984 for the first time since 1979, AMC lost $118.6 million in the first nine months of 1985. AMC's Jeep will also face greater competition as Japanese and U.S. automakers bring out four-wheel-drive versions of their passenger cars. AMC hopes to get back on track by introducing a high-priced, exotic car in 1987 and two intermediates in 1987 and 1988.

MANVILLE, No. 288, in Chapter 11 since August 1982, hopes to emerge in about a year. Last August, Manville's board approved a plan to set up a trust of as much as $2.5 billion to settle some 17,000 asbestos-related health claims and 19,800 property-damage claims. The trust would be funded by at least half the company's stock, $847 million in cash and receivables, and perhaps 20% of future profits and 30% more stock. The former asbestos producer has switched to fiberglass and forest products, but ranks last overall for soundness of financial position and second to last for community and environmental responsibility.

Control Data, No. 287, the fourth-largest U.S. computer maker, with revenues of $5 billion in 1984, misjudged how fast disk-drive technology was moving and how the proliferation of personal computer work stations would shrink its computer services business. Control Data lost $270 million in the first nine months of 1985. The company's overall score dropped from 5.5 last year to 3.89. Control Data placed in the bottom three for quality of management, use of corporate assets, and value as a long-term investment.

A harsh market also battered Amax, No. 286, the world's largest producer of molybdenum and also a miner of coal, zinc, copper, nickel, tungsten, silver, and gold. About 65% of molybdenum and 60% of nickel goes to the slumping steel industry, and Amax has lost more than $1.4 billion since 1982. Metal prices are low and Amax is not known as a low-cost producer. Because of heavy debt—$1.3 billion in long-term debt—interest payments are high. Says Ronald Shorr, a security analyst with the New York brokerage firm of Bear Stearns, "They're working for the banks now." Part of Amax's debt is attributed to a splurge on acquisitions the company

Biggest gainers

COMPANY	SCORE	CHANGE
Celanese	6.19	+.86
Sara Lee	7.02	+.67
Upjohn	6.81	+.61
Metropolitan Life	6.17	+.59
Eastern Air Lines	4.34	+.48
Martin Marietta	6.91	+.46
International Harvester	4.56	+.45
Ford Motor	7.14	+.42
Equitable Life Assurance	6.05	+.41
Exxon	7.72	+.41

Biggest losers

COMPANY	SCORE	CHANGE
Control Data	3.89	−1.61
LTV	3.66	−1.54
Wang Laboratories	5.62	−1.45
BankAmerica	4.09	−1.37
Union Carbide	4.37	−1.31
Phillips Petroleum	5.07	−1.08
B.F. Goodrich	4.98	−.91
Beatrice Cos.	4.36	−.90
Crown Zellerbach	4.23	−.89
J.C. Penney	5.91	−.87

Changes in Scores

Celanese, its earnings up sharply thanks to brisker sales and lower costs, scored the biggest gain in reputation over last year, while struggling Control Data had the biggest decline.

made in the 1970s. Amax ranks No. 290 of 292 for wise use of corporate assets. President Allen Born, who took office in June, will become chief executive in January. He has already begun selling assets. Says Born, "I didn't come to a sinking ship that I didn't think could be saved."

BankAmerica, No. 285, hit the least admired list for the first time, ranking at the very bottom overall for quality of management and 290th for innovativeness. Bank of America has had huge loan losses since 1980—over $3.5 billion—more than any other U.S. bank. While most money center banks showed robust results for the third quarter of 1985, BankAmerica had an operating loss of about $90 million. However, financial analysts say the chairman and president, who have been in place four years, are now catching up in electronic banking and in consolidating the California branch system.

CROWN ZELLERBACH, No. 284, has seen its reputation erode over a long period. Financial analyst John Maack at the San Francisco brokerage firm of S.G. Warburg Rowe & Pitman Akroyd says that since 1953 Crown Zellerbach shareholders have endured "a long history of failures" in an industry that is now hard pressed by overcapacity for certain types of paper, the strength of the dollar, and rising imports. The company had a nine-month net loss in 1985 of $43.9 million on sales of $2.3 billion. Now Sir James Goldsmith, having bought around 50% of its shares after a hard fight, is Crown Zellerbach's majority shareholder and new chairman. Some analysts think Goldsmith will sell off assets, as he did after acquiring Diamond International, a forest products company.

Companies—and managements—that want to be well thought of should be in a well-regarded business. But that isn't enough. As in the past, respondents to FORTUNE's survey point to quality of management and quality of products and services as by far the most important attributes in judging corporate reputations. A reputation can be quickly lost; just last year BankAmerica ranked above Manufacturers Hanover and Chase Manhattan in its industry group, and Control Data outshone Burroughs and Sperry. Rebuilding reputation is a slow process—but the painful climb of International Harvester and Eastern Air Lines out of the bottom ten companies in this survey demonstrates that it can be done.

HOW COMPANIES RANK IN 31 INDUSTRIES

Industry groups are based on U.S. Office of Management and Budget categories. Companies are assigned to industries according to the business that contributed most to 1984 sales (or assets, for certain industries).

Aerospace

Boeing, tops for all attributes except innovativeness, leads its industry again. Northrop is first for innovativeness.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Boeing	7.90
2	3	Rockwell International	7.16
3	2	Lockheed	7.00
4	6	McDonnell Douglas	6.95
5	9	Martin Marietta	6.91
6	5	Signal Cos.[1]	6.74
7	7	Northrop	6.73[2]
7	4	United Technologies	6.73[2]
9	8	General Dynamics	6.35
10	—	Textron[3]	6.05

Apparel

Gulf & Western has sold its apparel operations. Arrow shirt maker Cluett Peabody is merging with West Point-Pepperell.

RANK	LAST YEAR	COMPANY	SCORE
1	1	VF	7.48
2	2	Hartmarx	7.24
3	4	Interco	6.28
4	6	Warnaco	6.14
5	7	Cluett Peabody	6.00[2]
5	3	Oxford Industries	6.00[2]
7	8	Gulf & Western Industries	5.89
8	—	Phillips-Van Heusen[4]	5.40
9	9	Kellwood	5.33
10	—	Palm Beach[4,5]	4.93

[1]Acquired by Allied September 1985.
[2]Tie. Each scores higher than the other on four of eight attributes.
[3]Ranked No. 8 last year in the industrial and farm equipment category.
[4]Not ranked last year.
[5]Taken private December 1985.

Beverages

Coca-Cola kept its grip on first place in its industry group, despite a quickly reversed attempt to change Coke's formula.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Coca-Cola	7.98
2	2	Anheuser-Busch	7.69
3	3	PepsiCo	7.39
4	5	General Cinema	6.83
5	4	MEI	6.33
6	7	Brown-Forman	6.16
7	6	Joseph E. Seagram & Sons	6.14
8	8	G. Heileman Brewing	5.98
9	9	Adolph Coors	5.94

Chemicals

Haunted by Bhopal, Union Carbide ranks 290th for community and environmental responsibility.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Du Pont	7.27
2	3	Dow Chemical	6.76
3	—	Allied[1,2]	6.35
4	4	Hercules	6.31
5	2	Monsanto	6.27
6	5	American Cyanamid	6.24
7	9	Celanese	6.19
8	—	FMC[1]	6.12
9	6	W.R. Grace	5.63
10	7	Union Carbide	4.37

Commercial banking

BankAmerica hit the bottom of its industry group. It ranks 292nd out of 292 companies for management quality.

RANK	LAST YEAR	COMPANY	SCORE
1	1	J.P. Morgan	7.71
2	2	Citicorp	7.24
3	4	Bankers Trust New York	6.80
4	3	Security Pacific	6.69
5	5	First Interstate Bancorp	5.96
6	6	Chemical New York	5.95
7	9	Chase Manhattan	5.44
8	8	Manufacturers Hanover	5.25
9	—	First Chicago[1]	4.66
10	7	BankAmerica	4.09

[1]Not ranked last year.
[2]Acquired Signal Cos. September 1985. New name Allied-Signal.
[3]Acquired Houston Natural Gas July 1985. New name HNG/InterNorth.

Diversified financial

First Boston leads its group on six attributes. It was ninth for responsibility and second for financial soundness.

RANK	LAST YEAR	COMPANY	SCORE
1	1	First Boston	7.23
2	2	American Express	7.02
3	3	Merrill Lynch	6.53
4	4	Travelers Corp.	6.20
5	5	Aetna Life & Casualty	6.11
6	9	Cigna	5.91
7	6	Great Western Financial	5.90
8	8	H.F. Ahmanson	5.74
9	7	Federal Natl. Mortgage Assn.	5.51
10	10	Financial Corp. of America	3.23

Diversified services

RCA, praised for the revival of NBC and the sale of Hertz to United Airlines, won General Electric as a merger partner.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Phibro-Salomon	7.00
2	2	Super Valu Stores	6.54
3	4	Fleming Cos.	6.31
4	5	McKesson	6.25
5	8	RCA	6.19
6	6	CBS	6.15
7	3	Halliburton	6.08
8	—	HNG/InterNorth[1,3]	6.02
9	7	Fluor	5.65
10	9	Farmland Industries	5.43

Electronics, appliances

AT&T scores best for quality and responsibility, Motorola for innovativeness. GE is first for all other attributes.

RANK	LAST YEAR	COMPANY	SCORE
1	1	General Electric	7.57
2	3	Emerson Electric	6.90
3	4	AT&T Technologies	6.81
4	2	Motorola	6.60
5	5	Raytheon	6.35
6	8	Westinghouse Electric	5.96
7	7	North American Philips	5.87
8	9	Litton Industries	5.65
9	6	Texas Instruments	5.46
10	10	ITT	5.05

HOW COMPANIES RANK IN 31 INDUSTRIES

Glass, building materials

Asbestos-stricken Manville is far out of the running in this group. Financial analysts liked U.S. Gypsum best.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Corning Glass Works	7.10
2	2	PPG Industries	6.93
3	3	Owens-Corning Fiberglas	6.53
4	4	Owens-Illinois	6.43
5	5	U.S. Gypsum	6.24
6	6	Norton	6.04
7	8	National Gypsum	6.01
8	7	Libbey-Owens-Ford	5.93
9	9	CertainTeed	5.33
10	10	Manville	3.79

Food

Mergers and leveraged buyouts are changing the shape of the food industry. The latest: Beatrice is being taken private.

RANK	LAST YEAR	COMPANY	SCORE
1	3	Nabisco Brands[1]	7.06
2	6	Sara Lee[2]	7.02
3	4	Dart & Kraft	6.86[3]
3	1	General Mills	6.86[3]
5	2	General Foods[4]	6.76
6	5	Ralston Purina	6.69
7	9	Archer Daniels Midland	6.17
8	8	Borden	6.01
9	7	CPC International	5.78
10	10	Beatrice Cos.	4.36

Industrial and farm equipment

Cummins scored highest for only one attribute, community and environmental responsibility, but placed second for five.

RANK	LAST YEAR	COMPANY	SCORE
1	—	Cummins Engine[5]	6.83
2	2	Deere	6.69
3	3	Teledyne	6.68
4	6	Caterpillar Tractor	6.33
5	—	Emhart[5]	6.21
6	7	Dresser Industries	6.14
7	4	Combustion Engineering	6.02
8	9	Ingersoll-Rand	5.94
9	10	Baker International	5.90
10	—	Colt Industries[5]	5.70

Forest products

Paper towel and tissue maker James River stands first in its group for management quality and use of assets.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Kimberly-Clark	7.38
2	—	James River Corp. of Virginia[5]	6.76
3	4	Mead	6.18
4	5	Scott Paper	6.16
5	2	Weyerhaeuser	5.90
6	7	Georgia-Pacific	5.86
7	3	Boise Cascade	5.83
8	6	Champion International	5.39
9	8	International Paper	4.96
10	9	Crown Zellerbach	4.23

Life insurance

Long seen as a lumbering giant, Metropolitan Life bestirred itself to buy Century 21, a big real estate sales company.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Northwestern Mutual	7.17
2	2	Prudential	6.58
3	3	Travelers	6.24
4	4	Teachers Insurance & Annuity	6.17[6]
5	10	Metropolitan Life	6.17[6]
6	6	Connecticut General Life	6.10[7]
7	5	John Hancock Mutual	6.10[7]
8	9	Equitable Life Assurance	6.05
9	7	Aetna Life	6.04
10	8	New York Life	5.94

[1]Acquired by R.J. Reynolds September 1985.
[2]Formerly Consolidated Foods.
[3]Tie. Each scores higher than the other on four of eight attributes.
[4]Acquired by Philip Morris November 1985.
[5]Not ranked last year.
[6]Tie. Teachers Insurance & Annuity scores higher than Metropolitan Life on five of eight attributes.
[7]Tie. Connecticut General Life, wholly owned by Cigna, scores higher than John Hancock Mutual on five of eight attributes.

Metal manufacturing

Alcoa's winning score would be mediocre in most groups. LTV and Bethlehem are among the ten least admired companies.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Alcoa	6.35
2	2	Reynolds Metals	5.63
3	—	Alumax[1]	5.53
4	4	Inland Steel	5.37
5	—	Marmon Group[1]	5.28
6	5	National Intergroup	5.16
7	7	Kaiser Aluminum & Chemical	4.55
8	8	Armco	4.30
9	9	Bethlehem Steel	4.25
10	6	LTV	3.66

Motor vehicles and parts

General Motors ranks first for six attributes. Ford wins for product quality, Chrysler for innovativeness.

RANK	LAST YEAR	COMPANY	SCORE
1	1	General Motors	7.62
2	4	Ford Motor	7.14
3	5	Chrysler	6.98
4	3	Dana	6.91
5	2	TRW	6.79
6	6	Paccar	6.35
7	—	Borg-Warner[1]	6.12
8	8	Fruehauf	5.68
9	10	International Harvester	4.56
10	9	American Motors	3.75

Metal products

Gillette rates highest except for management quality and investment value. On these, faucet maker Masco is first.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Gillette	7.19
2	2	Masco	6.85
3	4	Stanley Works	6.82
4	5	Parker Hannifin	6.78
5	3	Ball	6.72
6	7	American Can	6.29
7	8	Crown Cork & Seal	6.18
8	—	Harsco[1]	6.06
9	—	CBI Industries[1]	5.83
10	10	Chromalloy American	5.28

Office equipment, computers

IBM, scoring highest for six attributes, trails Hewlett-Packard and Digital for innovativeness. H-P wins for product quality.

RANK	LAST YEAR	COMPANY	SCORE
1	1	IBM	8.31
2	2	Hewlett-Packard	7.67
3	4	Digital Equipment	6.97
4	5	NCR	5.94
5	3	Wang Laboratories	5.62
6	6	Honeywell	5.46
7	9	Burroughs	5.40
8	7	Pitney Bowes	5.22
9	10	Sperry	4.89
10	8	Control Data	3.89

Mining, crude-oil production

This industry group has one of the lowest median scores. Sohio ranks No. 1 on four attributes of reputation.

RANK	LAST YEAR[2]	COMPANY	SCORE
1		Standard Oil (Ohio)	6.24
2		Mitchell Energy	6.13
3		Vulcan Materials	6.11
4		Freeport-McMoRan	6.10
5		International Minerals & Chemicals	5.68[3]
5		Louisiana Land & Exploration	5.68[3]
7		Occidental Petroleum	5.62
8		Westmoreland Coal	5.16
9		Inspiration Resources	4.89
10		Amax	3.90

Petroleum refining

Blockbuster Exxon rates highest for five attributes. Amoco leads for management quality, innovativeness, and asset use.

RANK	LAST YEAR	COMPANY	SCORE
1	3	Exxon	7.72
2	1	Amoco[4]	7.63
3	4	Atlantic Richfield	6.75
4	5	Chevron	6.50
5	8	Sun	6.13
6	6	Mobil	6.00
7	—	Tenneco[1]	5.73
8	9	Texaco	5.47
9	7	Phillips Petroleum	5.07
10	10	U.S. Steel	4.95

[1]Not ranked last year.
[2]This industry was not surveyed last year.
[3]Tie. Each scores higher than the other on four of eight attributes.
[4]Formerly Standard Oil (Indiana).

HOW COMPANIES RANK IN 31 INDUSTRIES

Pharmaceuticals

Johnson & Johnson rates highest for management quality and responsibility, while Merck ranks first for the rest.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Merck	7.91
2	3	Johnson & Johnson	7.69
3	5	Pfizer	7.44
4	4	Bristol-Myers	7.29
5	2	Abbott Laboratories	7.16
6	7	Eli Lilly	7.03
7	6	American Home Products	6.88
8	9	Upjohn	6.81
9	8	SmithKline Beckman	6.48
10	10	Warner-Lambert	6.34

Precision instruments

Kodak leads for product quality and responsibility, while 3M takes first place for all other attributes.

RANK	LAST YEAR	COMPANY	SCORE
1	1	3M	8.12
2	2	Eastman Kodak	7.52
3	3	EG&G	7.03
4	4	Perkin-Elmer	6.86
5	5	Tektronix	6.74
6	6	Xerox	6.55
7	9	General Signal	6.45
8	8	Becton Dickinson	6.41
9	7	Polaroid	6.16
10	10	Lear Siegler	5.74

Publishing, printing

Gannett rates second for innovativeness among the 292 companies, but tenth in its industry for product quality.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Dow Jones	8.07
2	4	New York Times	7.50[1]
3	3	Gannett	7.50[1]
4	2	Time Inc.	7.13
5	5	R.R. Donnelley & Sons	7.09
6	8	Knight-Ridder Newspapers	7.08
7	9	Washington Post	6.92
8	6	Times Mirror	6.86
9	7	McGraw-Hill	6.72
10	10	Tribune	6.46

Retailing

American Stores, which owns food and drug chains and purchased Jewel Cos. last year, climbs to No. 2 from No. 7.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Sears Roebuck	6.37
2	7	American Stores	6.22
3	4	Kroger	6.16
4	3	Federated Department Stores	6.06
5	5	Safeway Stores	6.03
6	2	J.C. Penney	5.91
7	9	Lucky Stores	5.73
8	6	K mart	5.59[2]
9	8	Southland	5.59[2]
10	10	Household International	5.17

Rubber and plastic products

Rubbermaid scores first for all attributes. Goodrich has been hit by the shrinkage of the replacement-tire market.

RANK	LAST YEAR	COMPANY	SCORE
1	1	Rubbermaid	7.80
2	2	Goodyear Tire & Rubber	7.43
3	—	Carlisle[3]	6.24
4	4	Cooper Tire & Rubber	5.77
5	3	Armstrong Rubber	5.65
6	6	GenCorp	5.60
7	8	Dayco	5.04
8	7	Firestone Tire & Rubber	5.02
9	10	Uniroyal[4]	4.99
10	5	B.F. Goodrich	4.98

Shipbuilding, railroad and transportation equipment

American Standard, most familiar as a plumbing supplier, makes braking and control equipment for mass transit.

RANK	LAST YEAR[5]	COMPANY	SCORE
1		American Standard	6.93
2		Fleetwood Enterprises	6.90
3		Mack Trucks	6.36
4		Ogden	6.16
5		Coachmen Industries	5.98
6		Todd Shipyards	5.94

[1]The New York Times scores higher than Gannett on five of eight attributes.
[2]The K mart scores higher than Southland on five of eight attributes.
[3]Not ranked last year.
[4]Taken private September 1985.
[5]This industry was not surveyed last year.

Soaps, cosmetics

Procter & Gamble takes first for every attribute. Revlon tried to go private and has been taken over by Pantry Pride.

RANK	LAST YEAR[1]	COMPANY	SCORE
1		Procter & Gamble	7.79
2		International Flavors & Fragrances	6.66
3		Clorox	6.64
4		Lever Brothers	6.58
5		Economics Laboratory	6.16
6		Colgate-Palmolive	6.10
7		Chesebrough-Pond's	5.66
8		Avon Products	5.64
9		Revlon	5.59

Textiles, vinyl flooring

M. Lowenstein, No. 7 in this group, a maker of apparel fabrics, is being acquired by Springs Industries, No. 4.

RANK	LAST YEAR[1]	COMPANY	SCORE
1		Collins & Aikman	7.30
2		Armstrong World Industries	7.22
3		West Point-Pepperell	7.16
4		Springs Industries	6.67
5		Shaw Industries	6.60
6		Burlington Industries	6.06
7		M. Lowenstein	5.94
8		Fieldcrest Mills	5.56
9		J.P. Stevens	4.71
10		United Merchants & Mfrs.	4.64

Tobacco

Philip Morris is first for all attributes but investment value and use of assets, for which Reynolds is rated highest.

RANK	LAST YEAR[1]	COMPANY	SCORE
1		Philip Morris	7.63
2		R.J. Reynolds Industries	7.52
3		United States Tobacco	6.78
4		American Brands	6.31

Toys, sporting goods, musical instruments

Hasbro, maker of the G.I. Joe doll, ranks first for all attributes but innovativeness, for which Coleco is most admired.

RANK	LAST YEAR[1]	COMPANY	SCORE
1		Hasbro	7.49
2		Mattel	6.81
3		Kidde	6.35
4		Coleco Industries	5.74

Transportation

UPS ranks No. 1 for four attributes, including quality of services and financial soundness. Pan Am ranks last on all.

RANK	LAST YEAR	COMPANY	SCORE
1	1	United Parcel Service	7.27
2	2	Delta Air Lines	7.10
3	3	AMR (American Airlines)	6.98
4	7	Burlington Northern	6.67
5	—	Union Pacific[2]	6.60
6	6	UAL (United Airlines)	6.58
7	4	CSX	6.31
8	5	Santa Fe Southern Pacific	6.03
9	9[3]	Eastern Air Lines	4.34
10	9[3]	Pan Am	3.71

Utilities

Seven regional telephone companies spawned by the breakup in 1984 of the Bell System are the seven most admired utilities.

RANK	LAST YEAR	COMPANY	SCORE
1	—	Ameritech[2]	7.23
2	—	BellSouth[2]	7.18
3	—	Bell Atlantic[2]	7.17
4	—	Pacific Telesis Group[2]	7.04
5	—	US West[2]	7.01
6	—	Southwestern Bell[2]	6.98
7	—	Nynex[2]	6.80
8	5	Pacific Gas & Electric	6.46
9	8	Southern Co.	6.43
10	4	GTE	6.01

[1]This industry was not surveyed last year.
[2]Not ranked last year.
[3]Tied last year.

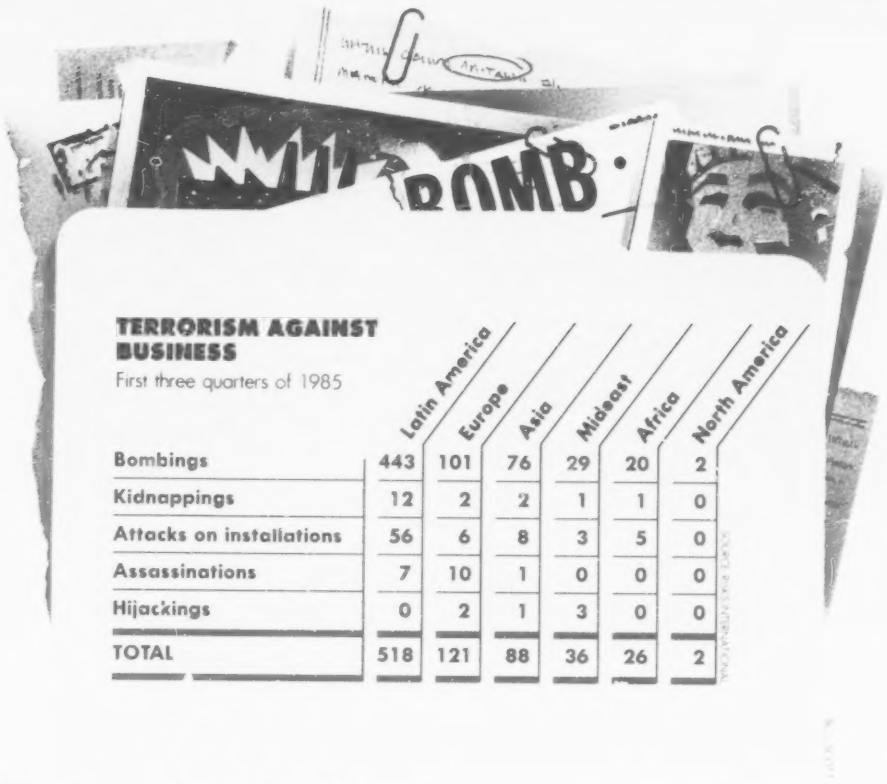
BUSINESS COPES WITH TERRORISM

U.S. executives have learned to live with the problem. A few pointers: Pick your airline carefully in the Mideast. Think twice before dropping by the office at night in Europe. Consider steel walls for the executive bathroom in Latin America. And stay out of Kampala. ■ *by Brian O'Reilly*

AT 6:30 IN THE MORNING last August 16, Michael Stewart, an engineer with Tenneco in Colombia, climbed into his chauffeur-driven car outside the Fontana Hotel in Bogotá. After proceeding a few blocks, his car was rammed from behind by a man driving a Mazda. Stewart's driver jumped out to investigate and was suddenly surrounded by armed men. The men forced the driver back into the car, and drove it away. They dropped the driver off after a few minutes, but Stewart is still missing. While the *Achille Lauro* hijacking got the headlines, crimes like Stewart's kidnapping represent the more constant terrorist threat to U.S. businesses abroad.

Let's not overstate the problem. In 1984 only 21 terrorist attacks on American businesses and executives occurred worldwide. But the people caught up in those 21 attacks had good cause to be terrified—28 were killed, 64 were wounded, and property damage amounted to $22 million, according to Risks International, a Virginia firm that moni-

A terrorist bomb *wrecked the Bank of America's office in Antwerp December 4. Two people were injured, neither seriously.*



TERRORISM AGAINST BUSINESS
First three quarters of 1985

	Latin America	Europe	Asia	Mideast	Africa	North America
Bombings	443	101	76	29	20	2
Kidnappings	12	2	2	1	1	0
Attacks on installations	56	6	8	3	5	0
Assassinations	7	10	1	0	0	0
Hijackings	0	2	1	3	0	0
TOTAL	518	121	88	36	26	2

Hot Spots (and Cool)

The table tallies attacks on all businesses in a region, not just on U.S. companies there. In Asia, for example, native businessmen in Sri Lanka and the Philippines take the heat; few Americans suffer. Attacks on installations exclude bombings; they include, say, machine-gun assaults.

tors terrorism. Terrorist incidents have been increasing at roughly a 12% to 15% annual rate for the past ten years—in the first nine months of 1985 the number of attacks on American business overseas grew to 29. Such attacks are also becoming more violent; terrorists seeking to draw attention to their causes seem to require ever gorier events to arrest the public eye. And while U.S. government installations have been the object of most anti-American attacks in the past, those installations are getting better fortified, so experts expect terrorists will shift to corporate targets. "There's no end in sight," laments Brian M. Jenkins, an authority on terrorism with the Rand Corp. think tank in Santa Monica. "World War II may have been the culmination of international warfare. Terrorism, by contrast, allows countries to wage war at low cost without accepting responsibility."

Corporate reactions differ. Occidental Petroleum and Chevron have developed reputations for being macho, willing to face hazards in Sudan, for example, that their competitors avoid. Other companies seem more cautious, or at least less visible. While Exxon, Texaco, IBM, Avis, and Phelps Dodge still have operations in strife-torn El Salvador, most of their executives live behind walls so high that a resident says strolling past them is like walking through a "topless tunnel."

To man the corporate outposts, companies rely on a hardy variety of legionnaire-executives, complete with a bit of swagger. "A guy in Idaho might say, 'Wait a minute,' " says a food company executive in Bogotá of the kidnappings and bombings that threaten him, "but the career international executives aren't too shocked. The career expatriates are used to it." For all their cool, though, most will only talk about their experiences if they're not quoted by name.

The first trick to surviving, they report, is knowing what to expect where. Terrorists' techniques and their selection of targets vary enormously around the world. Quite possibly the worst place on earth to do business is Kampala, the capital of Uganda. Drunken soldiers there have dragged people out of hotel rooms at night and executed them. To protect an American who recently visited the place to sell spare airplane parts, his customer, the government, hired presumably better-behaved soldiers. "Everywhere I went," he says, "the soldiers were carrying M-60 machine guns. When we were all inside the car, it seemed as if all four gun muzzles were poking in my ribs. I shudder to think what would have happened if anything had gone wrong."

Companies usually leave a country before things get as bad as in Kampala. Terrorism and guerrilla warfare are tolerable for business, but anarchy is not. "As a rule of thumb, the cost of protecting yourself from terrorists is about 1% or 1.5% of revenues," says a former treasurer for international operations at a big oil-drilling services company. "By the time the cost of protecting yourself rises to more than 3% of revenues, you're facing a complete breakdown of society, and it's not a question of protection but of running your business. You can't get raw materials in or finished products out, and the local currency is shot. By then it's time to pull out."

In the Mideast, airplane hijacking represents the greatest fear of most American businessmen, particularly those flying relatively obscure Arab airlines. An American forced to travel frequently in the region sometimes wears a lapel pin he hopes will ward off trouble. "Down With Israel," it reads. Some airlines flying to the Gulf states are considered comparatively safe. "We like Olympic Airways, SAS, and Swissair," says Mike Ackerman, a partner in Ackerman & Palumbo, a Miami consulting firm that has been trying to rank various airlines for safety as part of its business helping companies cope with terrorism. The policies of governments behind those airlines have not angered terrorists in the region.

IN WESTERN EUROPE, radical leftists stage much of the violence against U.S. corporations. American banks and computer companies have been popular targets for terrorists dedicated to fighting what they view as Yankee economic imperialism, but now groups opposed to the proliferation of cruise missiles have made defense contractors an additional priority, particularly in Belgium and West Germany. The preferred weapon among terrorists in Europe is the bomb, usually directed at an office building or factory. So far, the bombs have proved little more than inconvenient. They're typically set to explode at night, damaging property but injuring few people. "When a bomb went off ten years ago, corporations used to call a

RESEARCH ASSOCIATE *Kate Ballen*

Colombian press reports *allege that a German firm put this heart on its vehicles to signal that it had acceded to terrorist demands. The company says the symbol simply encourages safe driving.*

SAFE HAVEN

■ For all the money that companies spend protecting executives in the U.S.—and experts say the amount is increasing—the danger remains small. Of about 2,300 terrorist incidents that occurred worldwide in the first nine months of 1985, only eight took place in the U.S., and only two were directed against business. Both were attempted bombings of bank offices in New York City. While there were 13 terrorist incidents in the U.S. in 1984, only five hit businesses—bombings of Motorola, IBM, General Electric, Union Carbide, and Israel Aircraft Industries International facilities in New York. No one was injured.

Kidnappings in the U.S. have been the work of common criminals, not political terrorists, and a mere fraction have businessmen as victims. Only 15 kidnappings investigated by the FBI in the past five years involved ransom demands for release of executives or their families. Who is most frequently threatened? Rural bankers. They are highly visible figures in their communities and are thought to be able to get their hands on money quickly. Besides, kidnappers figure small-town police pose little problem.

meeting of the board of directors," says Jenkins. "Now it's considered a form of violent graffiti."

The experts think European terrorists could turn nastier soon. A militant leftist group that calls its targets to warn of impending bombs says future attacks "could wound or kill Yankee military or their accomplices." Eugene Mastrangelo, senior analyst at Risks International, notes that the head of a German industrial company doing defense work was kidnapped and killed recently. He worries that U.S. defense company employees in Germany face some of the worst risks of any expatriate Americans.

For now, though, terrorists have the biggest impact on the lives of businessmen in Latin America, where the most feared tactic is kidnapping. In December, for example, the Colombian government announced that terrorists had demanded $6 million in ransom for two kidnapped Americans, both employees of contractors working for Occidental Petroleum. In the past 15 years Latin American terrorists have kidnapped over 1,000 people for ransom, more than 35 employed by American companies.

In Latin America kidnappings are primarily a business proposition. Terrorists use the proceeds to finance political activities. "In the Mideast," Ackerman notes by contrast, "terrorist groups are often secretly funded by local governments and don't need money. They'll use a kidnap victim to win the release of political prisoners." The Latin American kidnapper's need for money makes negotiating a victim's release easier. Explains Ackerman, an ex-CIA agent who has negotiated with terrorists in over 20 kidnappings: "Normally the hostage will be returned alive if the money is paid, because the kidnapper has to maintain his credibility."

Kidnapping makes it risky for a high-ranking corporate visitor from the U.S. to linger in Colombia or Peru. But the experts say brief visits are usually okay because kidnappings take a while to plan. So top executives from the States practice what's called commando management, roaring into Bogotá or Lima for a few days to meet hastily with local employees and flying off before kidnappers discover they've arrived.

But after the big boss flies back to Peoria, how is the underling American to cope in Bogotá? Drug dealers, street crime, and terrorists unnerve managers of the 250 U.S. companies doing business there. Homes and offices are well fortified. Adjoining one executive's office is a steel-plated bathroom; he can survive there for days in case of attack. Some companies use Spanish-sounding names to do business in Colombia, but their expatriate managers have few illusions about fooling anyone. "The bad guys know who I am," says one.

"If they want you, they'll get you," concludes an oil company executive there. He has dispensed with guns and bodyguards—a Texaco official kidnapped in Bogotá had armed bodyguards, he explains, and the guards were killed immediately. He goes on: "I try to blend in. A lot of my friends are Co-

lombian. Some people say that by integrating myself I'm in more danger, but I feel the risk is worse if I'm an obvious target."

The greatest risk of kidnapping comes during the commute to work. One executive makes the trip every day in a bulletproof limousine, a pistol tucked under his driver's leg, a machine gun under the seat, and motorcycle escorts roaring around blocking off intersections. The head of another company, in contrast, drives his own car to work rather than have a bodyguard do the job. "Most bodyguards would have to work 20 years to afford this car," he reasons. "In that split second at the start of an ambush, where you might be able to ram through a roadblock, a bodyguard might hesitate, thinking he has to save the car."

WHEN SECURITY procedures are determined at corporate headquarters 3,000 miles away, they can prompt considerable grumbling. "The stuff I have to go through to protect myself is worse than the terrorists," complains an American in Bogotá. "The last people my wife and I see at night are my goons, and they're the first I see in the morning." The security so crimps his life that he's afraid no one will be willing to replace him. "Nobody expects an executive to refuse a transfer because he doesn't like the weather," he says, "but being forced to live in a cocoon is different." His teenage daughter complains she can't even hold hands with her boyfriend because of the ever present bodyguards. Her father chuckles: "That's the part about bodyguards I don't mind."

The recent experience of a firm working with Occidental Petroleum in Colombia demonstrates just how hard it is to figure out the proper course to take with terrorists. In 1984 Oxy discovered a billion barrels of oil in northeast Colombia. The oil giant hired Mannesmann Anlagenbau, a German construction firm that's a subsidiary of the big metal-products company, to build part of a 500-mile pipeline across the terrorist-infested Andes to the Pacific.

Mannesmann says that from the start it consistently refused to negotiate with the terrorists, known as the ELN, a leftist guerrilla group. A German engineer and two engineering students it employed were promptly kidnapped. Local newspapers reported that Mannesmann had to pay $2 million to ransom its employees. Then, according to the Colombian press, a Spanish military officer claiming to be working for Mannesmann offered a bribe to a Colombian general in the hope of getting army protection for some parts of the construction project. The general spurned the offer, and a scandal erupted.

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Mannesmann denies that the Spaniard acted on its behalf.

The construction firm decided to give jobs, food, clothing, and medicine to the local population, which undoubtedly included some ELN terrorists. At about the same time, according to *Semana*, a Colombian newsweekly, the ELN suggested that all of Mannesmann's vehicles carry a sticker with a red heart and the words, in Spanish, "Mannesmann has a heart for children." According to the story, this was to serve as a signal to local villagers that the company was meeting the ELN's demands, thereby enhancing the guerrillas' reputation. Mannesmann denies this too: it says the hearts remind its drivers to be careful and demonstrate the firm's regret over a motor accident that injured a child.

SOON the Colombian Army became interested. Army units showed up uninvited at Mannesmann's construction camps, demanding food, shelter, and transportation. Worried that the army's presence might turn the work camps into battlefields with the ELN, Mannesmann requested that soldiers be forbidden to enter the work camps. To placate both the terrorists and the government, Mannesmann agreed to spend $1 million a year to build roads, schools, health facilities, and reservoirs near the pipeline, with the projects to be managed by local priests.

For the undaunted company still hankering to do business abroad, a few principles for coping with terrorism:

▶ **Know the enemy.** It can matter, for example, whether the local terrorists are urban or rural. "One American company wanted to grow some exotic vegetables in South America and was trying to choose between Colombia and Chile," recalls a consultant. "In Chile the terrorists operate mostly in cities, and in Colombia they're urban and rural. We told them they'd have less trouble in Chile."

▶ **Know the experts.** Consulting firms and the State Department keep tabs on terrorist activity overseas. In some countries it's technically illegal to pay ransom. Unfortunately, that's often the only way to get the victim back. Consultants can sometimes arrange payment.

▶ **Don't bank on welfare programs.** They don't guarantee immunity from trouble. Such programs may work in rural areas where the terrorists are trying to win over peasants and can take credit for extracting the largesse. But goodwill programs can be positively risky in cities, warns an expatriate

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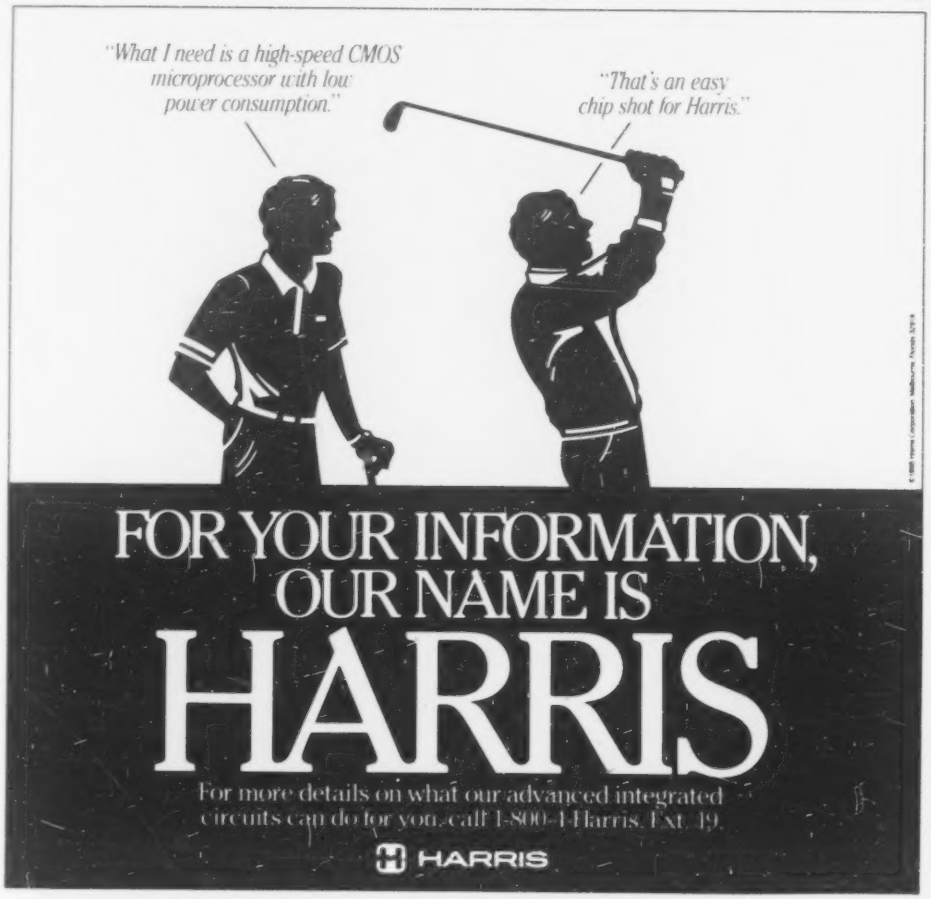

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MANAGING

American executive: "In my experience, urban terrorists are much more dangerous," he says. "They want the flight of capital and the insecurity that violence brings. If you try to endear yourself to the people, you can just make the terrorists angry."

▶ **Treat employees well.** A heavy-handed, unpopular manager can get in trouble if terrorists think they will win points with workers by kidnapping or killing him. A shoe company operating in Latin America brought in an autocratic Dutchman to make improvements in a factory a few years ago. An auto company did something similar in Italy. In both instances, after the newcomers had ordered a few layoffs, they were kidnapped.

▶ **Prepare for the worst.** Determine in advance who will handle negotiations if someone is kidnapped and figure out what say the victim's family will have in the matter. Kidnap ransom insurance is available, costing from a few thousand dollars a year for companies operating solely in the U.S. to $500,000 for a sprawling multinational.

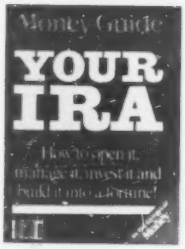
▶ **Listen to the local manager.** Not Dan Rather. Top brass stateside too often make decisions about faraway places based on what they see on the evening news. After an embassy bombing in Latin America, a company president promptly told his manager to leave town for a few days. The man balked, confident that the bombing wouldn't spread: "When there were riots in Watts, nobody ordered their managers in Los Angeles to pull back to San Francisco. I said I wasn't going."

▶ **Be careful hiring local managers.** Nationals are increasingly popular with American companies as managers of installations abroad, partly because they can cost half as much to support as Americans. Some companies think hiring locals helps ward off terrorism, too; they reason that kidnapping a Yankee wins a terrorist group more points with the community than grabbing a native. Expatriates aren't always so sure. Some argue that many nationals are more loyal to themselves than to the company—more likely, that is, to skim profits or accept kickbacks on contracts. In at least one instance, expatriates say, an American was kidnapped not by terrorists but by locals trying to stop his investigation into wrongdoing by nationals who worked for the company in that country.

▶ **Think about locating in Asia.** There's almost no risk of terrorist attack to American or other foreign businesses there, the experts report, at least if you stay out of the Philippines. Says consultant Ackerman, "If it weren't for the Philippines, my Asia man would hardly have any work to do." ◼

Questions about your IRA?

ANSWER:



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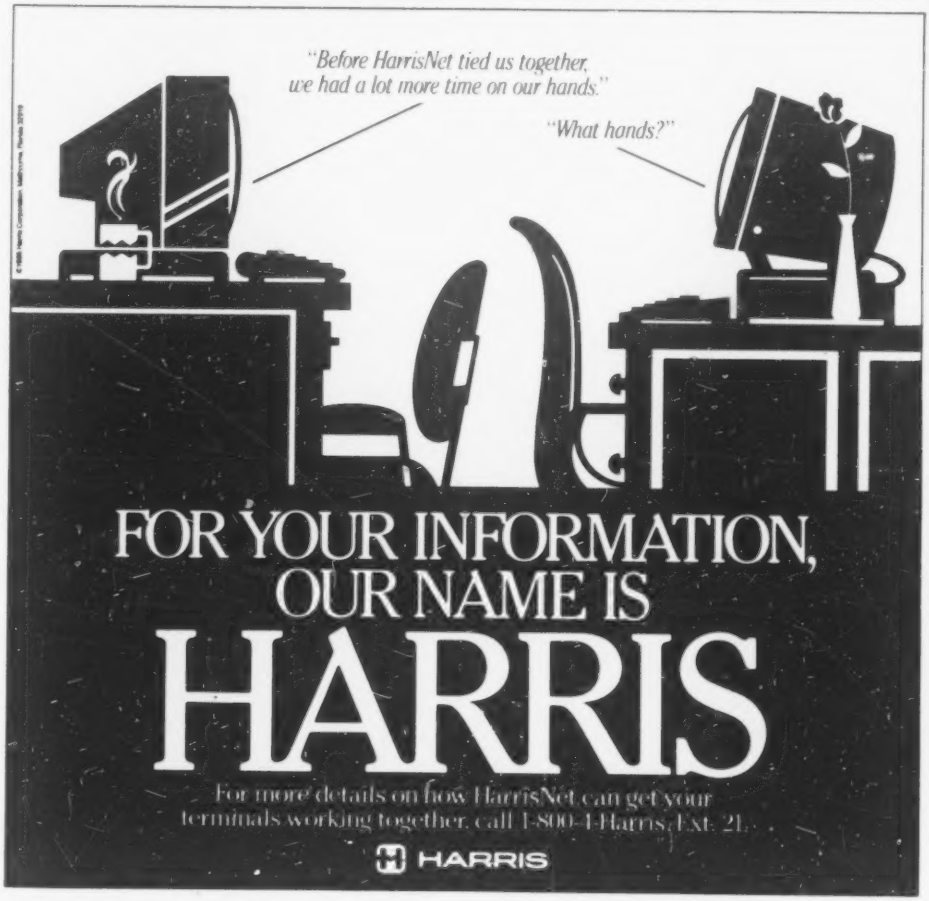
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